In the absence of income, families need assets to access opportunity and become economically secure. Wealth allows families to access opportunity and become economically secure. There is a dramatic lack of minority wealth in this country especially related to white wealth. This extreme disparity has far reaching consequences that lead to a state of overall financial instability for communities of color and a lack of social mobility for their children.

**FACT:** The racial wealth gap creates low savings and high vulnerability in families.

All families need wealth to be economically secure and create opportunities for the next generation. With assets, families can begin investing in their financial futures by saving for education, a home or business. CFED’s 2014 Scorecard found the people of color are disproportionately affected by liquid asset poverty. The data show that two out of every three (61%) households of color are liquid asset poor. This lack of savings corresponds with long-term financial insecurity. Households of color were also found to have approximately one-tenth the median net worth of white households ($12,377 and $110,637, respectively). Families without savings are much more vulnerable to economic catastrophe, such as foreclosure, homelessness and prolonged use of public assistance.

Low savings also has long-term consequences for households of color. As low-wealth minority children become teenagers, their early ambitions for college tend to “wilt” in the face of many discouraging economic signals. Assets tend to combat such wilt by fortifying expectations that in turn induce behaviors that produce success. Low-income working families are disproportionately headed by racial or ethnic households of color. In 2011, 59% of low-income working families had one or more minority parents. New research shows that low- and moderate-income students with just $500 or less in college savings are three times more likely to graduate than those without a savings account. We know focusing on income alone is not enough to succeed in the American economy; it takes assets to achieve economic mobility.

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**NUMBERS TO KNOW:**

- Nearly 2 in 3 households of color live in asset poverty.
- White households have nine times more net worth than households of color.


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1. Asset poverty is when a family does not have sufficient assets to subsist at the poverty level for three months in the absence of income.
**FACT:** The racial wealth gap is reducing economic opportunity.

The racial wealth gap continues to grow. According to research by the Urban Institute, the wealth gap has doubled in the past few decades. The average wealth of white families was $230,000 higher than the average wealth of African-American and Hispanic families in 1983. By 2010, the average wealth of white families was over a half-million dollars higher than the average wealth of black and Hispanic families.

The Great Recession greatly exacerbated the wealth gap between whites and minorities. The Urban Institute found that between 2007 and 2010, Hispanic families saw their wealth cut by over 40%, while African-American families saw their wealth fall by 31%. By comparison, the wealth of white families fell by 11 percent. This loss of wealth was reflected in homeownership rates; in 2010, fewer than half of black and Hispanic families owned homes, while three-quarters of white families did.

As minority families lost homes during the recession, white families experienced an increase in assets. The Urban Institute found that the value of black families’ retirement accounts shrunk by 35% between 2007 and 2010, while white families’ accounts actually gained nine percent over the same period.

**FACT:** Homeownership drives the racial wealth gap.

Homes are often the largest investment that American families make. Homeownership is a particularly large portion of wealth owned by black families, accounting for 53% of wealth for blacks compared to just 39% for whites.\(^2\) The Institute on Assets and Social Policy (IASP) determined that the racial homeownership gap is the result of a broad legacy of systematic racial segregation, discrimination and unequal opportunity.

- **Residential segregation**, due to historical discriminatory practices such as redlining, has a long legacy in this country and underpins many of the challenges African-American families face in buying homes and increasing equity in their homes today.

- **Inheritances and family assistance for downpayments are more common in white families**, resulting in white families buying homes and starting to acquire equity an average of eight years earlier than black families.

- **Family assistance leads to large up-front payments** by white homeowners, which usually results in lower interest rates and lending costs overall for these families.

Additionally, new research out of Zillow Inc., with contributions from the National Urban League, found that there were significant differences across race and ethnic groups in the success of mortgage applications. Specifically, an application from a black applicant is 2.4 times as likely to be denied compared to an application from a white

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applicant. Combined, these effects result in significantly lower homeownership rates for black families. CFED found that homeownership rates for households of color are 26 percentage points below the rate for white households (46% and 72%, respectively).

I IN 4 BLACK APPLICANTS WILL BE DENIED THEIR CONVENTIONAL LOAN APPLICATIONS


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Resources

- Urban Institute, Less Than Equal: Racial Disparities in Wealth Accumulation, April 2013
- Washington Monthly, A House Divided, February 2013
- CFED, Treading Water in the Deep End, January 2014

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